Seya Industries Limited

April 5, 2019

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Fund Based Bank Facilities (Term Loan)	438.85 (reduced from 460.66)	**CARE BBB+; Stable(Triple B Plus; Outlook: Stable)**	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Long-term Fund Based Bank Facilities	71.10	**CARE BBB+; Stable; (Triple B Plus; Outlook: Stable)**	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Short-term Non Fund Based Bank Facilities	6.00	**CARE A3+ (A Three Plus)**	Revised from CARE A2 (A Two)
Total	**515.95 (Rs. Five hundred fifteen crore and Ninety five lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Seya Industries Limited (SIL) factors in cost overrun and delay in commercialization of the the large sized ongoing capex, and further additional debt funded capex being undertaken which was not envisaged at the time of last review.

The delay in project execution is expected to result in delay in the envisaged growth in revenues and profitability thereby also affecting the company's debt coverage indicators. The rating revision also factors in the project implementation and stabilisation risk associated with the significant capex as compared to its net worth as well as the additional debt being raised for the various on-going/planned projects undertaken by SIL which is over and above the planned funding plans for the capex as envisaged earlier.

The ratings, however, continues to derive strength from extensive experience of the promoters in the specialty chemical business, and healthy operational performance characterized by growth in revenues,improvement in the profit margins, and comfortable capital strcture.

The above rating strengths are however tempered by moderate debt service coverage indicators, working capital intensive nature of operations, profit marigns susceptible to volatility in the raw material prices

Detailed description of the key rating drivers

Key Rating Strengths

Extensive experience of the promoters in the specialty chemical business

The company is managed by Mr. Ashok G. Rajani and his sons who are well qualified technocrats in the field of chemical engineering. The company is managed by 4-member board having healthy experience in the various segment of the chemical industry.

Growth in revenues coupled with improvement in the profit margins

The company's products find its uses in various user industries such as manufacturing of paints, polymer additives, agrochemicals, pharmaceuticals, dyestuffs, perfumes, hair dyes, printing inks etc. Growth in demand from these user industries led to growth in sale volume. This, coupled with higher realizations from products sold led to 12.29% growth in total operating income on y-o-y basis from Rs.309.38 crore in FY17 to Rs.347.41 crore in FY18.

Moreover, as the sales price increased more than the raw material prices, the company's profit margins also improved. SIL earned PBILDT margin improved by approximately 648 basis points to 30.64% during FY18 from 24.17% earned during FY17. The PBILDT margin further improved to 34.15% during 9MFY19.

Capital structure continues to be comfortable

As the company availed part of the term loans (out of total sanctioned Rs.375 crore) sanctioned to finance the ongoing capex during FY18, the company's total debt(including acceptances) increased to Rs.401.70 crore (including unsecured loans from promoters amounting to Rs.82.81 crore) as on March 31, 2018 from Rs.244.60 crore as on March 31, 2017. This resulted in marginal deterioration in the capital structure as seen from overall gearing of 0.70 times as on March 31, 2018 from 0.47 times as on March 31, 2017. However, the capital structure still continues to be comfortable. Moreover,

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

despite issue of Non-Convertible Debenture (NCD), issuance of compulsory convertible preference shares (CCPS) to non-promoters and conversion of unsecured loans from promoters into CCPS is expected to help the company to maintain capital structure at comfortable levels.

Key Rating Weaknesses

Modest scale of operations

With total operating income of Rs.347.41 crore, the company's scale continues to be relatively modest as compared to other players in the industry.

Moderate debt service coverage indicators

As the company's new plant is expected to start commercial production by February 2020, the company's gross cash accruals have not increased in tandem with increase in the debt resulting into deterioration in the total debt to GCA ratio to 5.48 times as on March 31, 2018 from 4.06 times as on March 31, 2017. Total debt to GCA ratio further deteriorated to 5.61 times as on December 31, 2018. Neverthless, the financial risk profile still continues to be moderate.

Working capital intensive nature of operations

The company's average receivable days further increased to 95 days as on March 31, 2018 as compared to 83 days as on March 31, 2017. However, the increase in receivable days is mainly on account of changes in financial reporting methods post GST, as the company now reports sales net of GST. Besides, the processing time involved in the manufacturing process coupled with requirement to maintain some raw materials leads to average inventory period of around 40-50 days. On the other hand, the company purchases its majority of raw material requirements from large oil refineries, where the credit period is very low. This leads to high average working capital cycle for the company which rose from around 107 days as on March 31, 2017 to around 120 days as on March 31, 2018.

Receivable as % of Gross sales

	FY16	FY17	FY18
Receivables	66.42	79.17	103.53
Gross Sales	294.85	314.14	408.46
Receivables as % of Gross sales	22.53	25.20	25.35

Thin liquidity position

As the company continued to utilize its internal accruals to fund ongoing capex and increase in working capital requirements the company's liquidity position continued to be thin. During last twelve months the company's average fund based limit utilization was around 93.42%, thus leaving very small cushion for the company to access funds in case of any exigency. However, the company avails adhoc limits from the banks as and when required to the extent of Rs.4.00 crore. Further, as part of the fund raised through NCD/CCPS will be utilized for funding working capital requirements, the liquidity position is expected to improve on a temporary basis in the short term.

Cost overrun and delay in ongoing project coupled with further increase in project size with addition of new products

The company's ongoing project involving expanding its capacities of PNCB & ONCB, and also broaden its product mix to increase the range of products, both vertically (by adding downstream products) and horizontally (by adding Sulphuric Acid and allied products to its product mix). As per earlier estimates, the total cost of this project was around Rs. 581.62 crore and it was to be funded through a mix of debt of Rs.375 crore and remaining through equity infusion by the promoters. However, the project cost of the mentioned project is expected to further increase to Rs.623 crore, and the commercialization date of the phase-2 project has delayed to February 2020 as compared to earlier expected commercialization of beginning from April 2019 to October 2019. As on December 31, 2018, the company has already incurred around 87.50% of its revised budgeted cost of Rs.623 crore. Moreover, the company has increased its project size by adding phase-1 expansion projects viz 3,3 DCB and PNA thereby increasing the project size by additional Rs.100 crore, which shall be funded through NCD of Rs.80 crore and internal accruals of Rs.20 crore. The company has already raised Rs.72 crore through NCD for funding the phase-1 expansion project. Furthermore, with addition of phase-1 expansion project, the company's total ongoing project has increased to Rs.723 crore i,e 1.25 times of tangible noteworth as on March 31, 2018. The phase-1 expansion project is expected to commercialize in 15-18 months i.e. by around September 2020. Thus, with the on-going project yet to commercialize and additional upcoming project, the company's exposure to project implementation and stabilization risk has further increased .

Ability to pass on change in raw material prices; albeit with a time lag

The company's one of the key raw material is benzene, which are derivatives of crude oil, and hence its prices remain volatile due to volatility in the crude oil prices. The company is generally able to pass on any increase in input prices to its customers as the company revises its product prices on monthly basis. However, lag in passing input prices may affect the company's profit margin in the short term. Nevertheless, the company has been able to consistently improve its profit margins in the last few years, despite large volatility in the input prices during the period.

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Financial ratios – Non-Financial Sector]
[Rating Methodology-Manufacturing Companies]
[Criteria for Short Term Instruments]

About the Company
Incorporated on October 11, 1990 as Sriman Organic Chemical Industries Private Limited, Seya Industries Limited (SIL) is engaged in manufacturing of benzene based organic chemicals, viz., mono chloro benzene (MCB), para nitro chloro benzene (PNCB), ortho nitro chloro benzene (ONCB), 3,3 di chlorobenzidine (3,3 DCB), 2,4 di nitro chloro benzene (2,4 DNCB) and para nitro aniline (PNA) and by-products like sulphuric and hydrochloric acid which find application in pharamceutical, dyes, agrochemical , fertilizer and rubber industries. The manufacturing facility is located at Tarapur, Boisar (Maharashtra) with capacity to produce 18,000 MT of MCB, 8,750 MT of ONCB, 18,750 MT of PNCB, 6,000 MT of 2,4 DNCB, 7,600 MT of 3,3 DCB and 4,000 MT of PNA as on March 31, 2018.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	309.38	347.41
PBILDT	74.77	106.46
PAT	42.23	52.40
Overall gearing (times)	0.47	0.70
Interest coverage (times)	5.29	5.96

A: Audited

Status of non-cooperation with previous CRA:

Any other information: Not Applicable.

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 2027	438.85	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	71.10	CARE BBB+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	6.00	CARE A3+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	438.85	CARE BBB+; Stable	1)CARE A-; Stable (07-Apr-18)	1)CARE A-; Negative (27-Apr-17)	-	1)CARE A- (23-Dec-15)
2.	Fund-based - LT-Cash Credit	LT	71.10	CARE BBB+; Stable	1)CARE A-; Stable (07-Apr-18)	1)CARE A-; Negative (27-Apr-17)	-	1)CARE A- (23-Dec-15)
3.	Non-fund-based - ST-Letter of credit	ST	6.00	CARE A3+	1)CARE A2 (07-Apr-18)	1)CARE A2 (27-Apr-17)	-	1)CARE A2 (23-Dec-15)

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